# Helene Curtis Industries, Inc.

## Annual Report

YEAR ENDED FEBRUARY 28, 1974

# Contents


# Financial Summary

### OPERATIONS

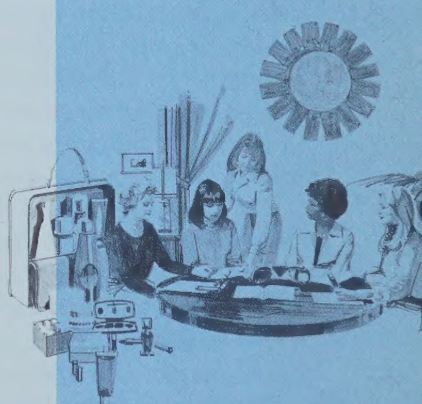
| | YEAR ENDED Feb. 28, 1974 | YEAR ENDED Feb. 28, 1973 |
|---|---|---|
| Net Sales | $77,745,000 | $66,927,000* |
| Earnings (Loss) Before Extraordinary Credit | $ 1,077,000 | $ (1,197,000) |
| Net Earnings (Loss) | $ 1,158,000 | $ (1,197,000) |
| Per Share: | | |
| Earnings (Loss) Before Extraordinary Credit | $ .49 | $ (.55) |
| Net Earnings (Loss) | $. 53 | $ (.55) |

### FINANCIAL POSITION

| | Feb. 28, 1974 | Feb. 28, 1973 |
|---|---|---|
| Working Capital | $13,689,000 | $12,677,000* |
| Ratio of Current Assets to Current Liabilities | 2.00/1 | 2.23/1 |
| Shareholders' Equity | $16,919,000 | $15,761,000 |

***Restated to reflect the consolidation of foreign subsidiaries located outside the United States and Canada.**

# Financial Review

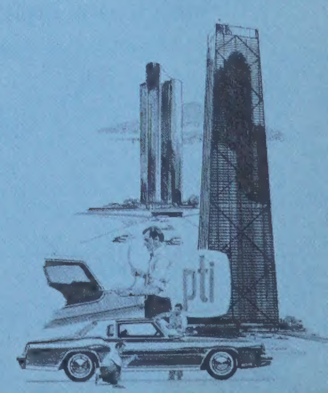


Working capital at year-end was $13,689,000; the ratio of current assets to current liabilities was 2.00 to 1. Current forecasts indicate that working capital and bank credit lines that are available will be adequate for the business projected for the year.

The Company owed its banks $822,000 at year-end and total current liabilities amounted to $13,677,000 compared to $10,295,000 at the end of the previous year.

Depreciation was $799,000 and capital expenditures amounted to $1,018,000 compared with $730,000 and $600,000 last year.

At February 28, 1974 the Company and its domestic subsidiaries had recorded expenses amounting to approximately $1,900,000 which have not been deducted for income tax purposes. Such amounts, when deducted, will be available to reduce otherwise determined taxable income. In addition, a Canadian subsidiary has an operating loss carryforward of $1,200,000 ($160,000 expiring in 1975 and $570,000 in 1977) available to reduce its future Canadian taxable income. The Company also has foreign tax credit carryovers of $1,200,000 (expiring principally in 1976 through 1978) and investment tax credit carryovers of $180,000 (expiring in minor amounts from 1977 through 1981) available to reduce future domestic tax liabilities, if any.



# To Our Shareholders:

Sales and earnings in the year ended February 28, 1974 were greatly improved over the previous year. Sales increased from $66,927,000 to $77,745,000; earnings improved from a loss of $1,197,000 to a profit of $1,158,000.

For the most part we are pleased with the accomplishments of the past year. As the economy and conditions permit, we hope that we will be in a position to restore our profit margins to a more acceptable level.

Our Retail Products Division continued to display improvement as it recorded record-high sales. The Everynight line of shampoos and rinse received strong advertising support on radio and television during the year. Our Suave line of toiletries was also advertised on national television with its theme of "quality with economy."

New product introductions under both the Everynight and Suave trademarks contributed to an increase in sales and share of market. Continuing commitments have been made to support these lines and we are confident of their continued successful development.

The Professional Salon Division continued its dominant position in this segment of the market. The successful introduction of our UniPerm Precision Perming System became one of the major success stories in the history of the professional beauty industry. The System offered the beauty salon industry a foolproof method to produce a variety of natural-looking styles to a whole new segment of young and contemporary-minded women.

The year also marked the division's introduction and establishment of the unique and creative "Gimme" line of custom shampoos and conditioners made with natural fruit and vegetable extracts. Other new products introduced also contributed to the most successful year in the history of this division.

The International Division, through our network of subsidiaries, licensees and distributors, has had another good year. It started the year with a major International Management Conference attended by associates from South America, Central America, Europe, Asia, Africa, Australia and New Zealand. The participants joined together to share their experiences and expertise with one another and returned to their homes with renewed vigor and knowledge to once again increase the sales of Helene Curtis products throughout the world. Our Japanese subsidiaries continued to increase their share of the market with improved sales and profits.

The Studio Girl Division continued to receive our close attention and we believe that the implementation of plans which were developed during the past fiscal year will materially affect the growth and profitability of this division.

We are pleased to announce that Doris Day, the famous film and television star, has joined us as a consultant to Studio Girl and we excitedly look forward to the role that she will play in the development of our new Studio Girl programs.

Despite the downturn in the automotive, architectural and construction industries, Protective Treatments, Inc. has again reported an increase in sales as new product introductions gained us a greater share of the market. Our research and development laboratories continue to search for innovative applications and the development of new products as we continue in our efforts to remain a major manufacturer in the sealants and adhesives industry.

The Company has amended its accounting policy with respect to the consolidation of foreign subsidiaries. In prior years the Company consolidated the accounts of only its domestic and Canadian subsidiaries. The Company has now adopted worldwide consolidation, and financial statements for previous fiscal years have been restated to include those foreign subsidiaries which were not previously consolidated. Since the Company in prior years reported the net earnings of unconsolidated foreign subsidiaries, the restatement does not

affect previously reported earnings.

The growing complexity and diversity of our business operations and the advancing technology and specialization required in managing our daily affairs led the Company to consider a multiple chief operating officer function. Accordingly, we introduced the Office of the President, composed of the president and two corporate vice presidents, to assist the president in guiding the affairs of the Company. Utilizing the Office of the President during the past year the Company placed increasing emphasis on modern management techniques to improve executive skills throughout the Company. Long range planning, management by objectives and responsibility accounting attained added importance in monthly review meetings held with senior executives of all operating divisions. As a part of the process senior corporate officers not only guide the current programs of the various divisions, but also furnish counseling toward the achievement of major corporate goals and objectives.

The current unsettled state of the world economy, critical shortages of certain materials and high interest rates have had their effect on companies around the world. Materials critical to our growing requirements have not always been in plentiful supply, but our people have been able to meet the problems of supply. Our long standing policy of fair treatment to suppliers has made it possible for us to rely on our friends. They have responded to keep our production lines flowing. Increases in the cost of our materials have adversely affected our profits, especially when either governmental controls or competitive situations have not always permitted us to pass on these increases in our selling prices.

It is with sorrow and deep regret that we announce the untimely death of two dear friends and former associates, Franklin B. Schmick and Harry F. Taylor. Mr. Schmick served as a member of our Board of Directors from 1956 until the time of his death in November, 1973. Mr. Taylor, the founder of our Studio Girl subsidiary, was recognized as one of the outstanding members of the direct selling industry until the time of his death in January, 1974. We shall sincerely miss their guidance and counsel in the years to come.

The modest improvement in sales and earnings reported this past fiscal year must be directly attributed to the new spirit that prevails throughout the Company. A new professionalism is apparent as we plan for the future. Despite the problems which affect the economy we view the current year with optimism and believe that we will continue to show both improved sales and earnings in the year ahead.

G Gidwitz

Gerald Gidwitz
Chairman of the Board

Walter Kaplan

Walter Kaplan
President

May 1, 1974

# Retail Products Division

Our Retail Products Division has continued to build on the successful introduction of the Everynight line of shampoos and rinse. Sales reached record new highs as the division expanded its share of market and opened new outlets for distribution.

The Everynight line was introduced nationally in August, 1972 with an intensive radio advertising campaign directed toward the younger age group, the heaviest per capita user of shampoos. During the past year, network television was added and has contributed to expanding the Everynight franchise to all age groups.


A new effective after-shampoo product, Everynight Long Hair Conditioner, was successfully added to the line during the year. We are currently introducing Everynight Wild Strawberry Shampoo, a new pH adjusted shampoo, which appears to be receiving good acceptance in the trade and by the consumer.

Following the success of our Everynight line, the division reinstated national television advertising for our economy priced Suave line of toiletries. TV advertising has carried the Suave "quality with economy" story to millions of television homes and sales have responded to this message.

New improved products are being added to the Suave line to fill consumer needs in this segment of the market. A Lemon Shampoo was successfully launched in mid year. In January, 1974 a trio of new Suave Fruit Essence Shampoos—Strawberry, Apricot and Green Apple—with a pH balanced formula, were introduced and their acceptance by the consumer has been most gratifying. The superior formulation of these products accounts for the high repurchase rate being experienced.

We know that new products that can fulfill real consumer needs represent a sound opportunity for growth. Toward this goal we are test marketing new products in the skin and hair care fields and we hope to bring several to market during the current year.

We have strengthened our divisional organization by adding key executives in the marketing, sales and financial areas. Utilizing a new professionalism, we are committed to continuing the solid growth of the Retail Products Division.

# Professional Salon Division

During the past year, the Salon Division continued its leadership position in the beauty salon field, making several dramatic entries into conventional markets and capitalizing on new salon trends as well.

Highlighting the year was the introduction of the UniPerm Precision Perming System, a totally new concept in permanent waving. The System, which combines a sophisticated blend of chemicals with an electrical control unit, offers the beauty salon a foolproof method of permanent waving and an opportunity to capture a whole new segment of young and contemporary-minded women seeking the natural-looking styles it is able to achieve. The wider patron appeal of UniPerm and the resulting new business opportunities it offers the salon were graphically presented in a nationwide series of seminars and clinics. Today, from the viewpoint of both the hairdresser and her patron, UniPerm is a complete and continuing success. Its story is one of the true "success stories" in the history of the professional beauty industry.

The year also marked the division's introduction and establishment of the unique and creative "Gimme" line of custom shampoos and conditioners. Made with natural fruit and vegetable extracts, these products were offered in two sizes—one for professional use, another for the salon to sell to patrons who seek professional quality products for use between salon appointments.

Because this trend toward retailing in the beauty salon is a growing one, the division also established a line of skin care products featuring the popular fragrance and conditioning properties of balsam. The line includes a Cleansing Bar, a Hand Conditioner, a Bath Oil and a Facial Mask.

New products planned for introduction this year continue to be innovative answers to proven salon needs. The research and development staff has recently pioneered the use of carbohydrates in various hair care preparations. During the coming year, a number of products will be marketed using these basic formulations.

In a general plan to upgrade and improve services to its network of full-service beauty supply dealers, the division has added to its marketing and sales staff. These personnel additions, combined with the establishment of long-range planning, will enable the division to maintain its position of leadership in the industry.

# International Division

Our Company has long recognized the multi-national nature of modern business. Over the years the International Division has developed a world-wide system of subsidiary companies, licensees and distributors, to manufacture and market Helene Curtis products. Sales by our licensees and distributors are not included in the consolidated sales reported by the Company. Last year these sales of Helene Curtis products throughout the world exceeded $47,000,000. Sales of new products and expanded demand for our products overseas should continue strong during the current year.

Evolving from our traditional strengths in the hair care field our international associates have moved into other areas of personal care products including: facial cosmetics, body creams, lotions, talcs, nail varnishes and soaps. From laboratories in the United States and Holland, our chemists travel the world to develop with their counterparts in various countries, products which will fill the need of consumers around the globe. Our international research and development is geared to serve the needs of the individual country and its particular environment.

Continued profitable development of the Japanese market by our subsidiaries there contributed significantly to divisional results. Our Canadian subsidiary showed improved sales and earnings. In India our joint venture with the J. K. Group made excellent progress during the past year. Several of our licensees made sizeable gains in the development of their market and special mention should be made of our associates in Italy and Brazil in this regard.

We will continue to extend our international network to new markets as opportunities for our products present themselves. Steps are now being taken to develop new markets in Asia and Europe.

Despite world-wide material scarcities, rising costs and currency uncertainties, prospects for the current year remain quite promising.

# Studio Girl Division

During the past several years this division has not contributed to the profitability of the Company. Changes that would materially affect the future course of the division were required and a good portion of the past year was spent in developing plans toward achieving this goal.

Doris Day, the famous film and television star, has been retained as a consultant to Studio Girl. Miss Day will appear at conventions, make promotional films, and in important ways enhance our recruiting efforts.

The Doris Day Sunshine Beauty Break, where guests of selected hostesses learn skin care and makeup techniques using Studio Girl products, will be introduced to Studio Girl Beauty Advisors across the country. Our Beauty Advisors will be encouraged to use this new program as a more effective and profitable method of selling.

The increasing cost of direct mail recruitment of new Beauty Advisors has required the development of new recruiting methods. To this end our field recruiting organization is being restructured and reinforced. Our field incentive programs, which are designed to encourage larger sales by our representatives, were greatly simplified during the year. New selling programs were also implemented toward retaining Beauty Advisors for a longer period of time. These new programs should enable us to keep a larger pool of active representatives.

A major program to update and improve products and packaging is well underway. Several new skin care, eye makeup and hair care products have already been introduced and more dramatic and modern packaging will become evident in the current year.

Programs to reduce fixed operating costs have recently been implemented. The current fiscal year should show an improved operating result.

# Protective Treatments Division

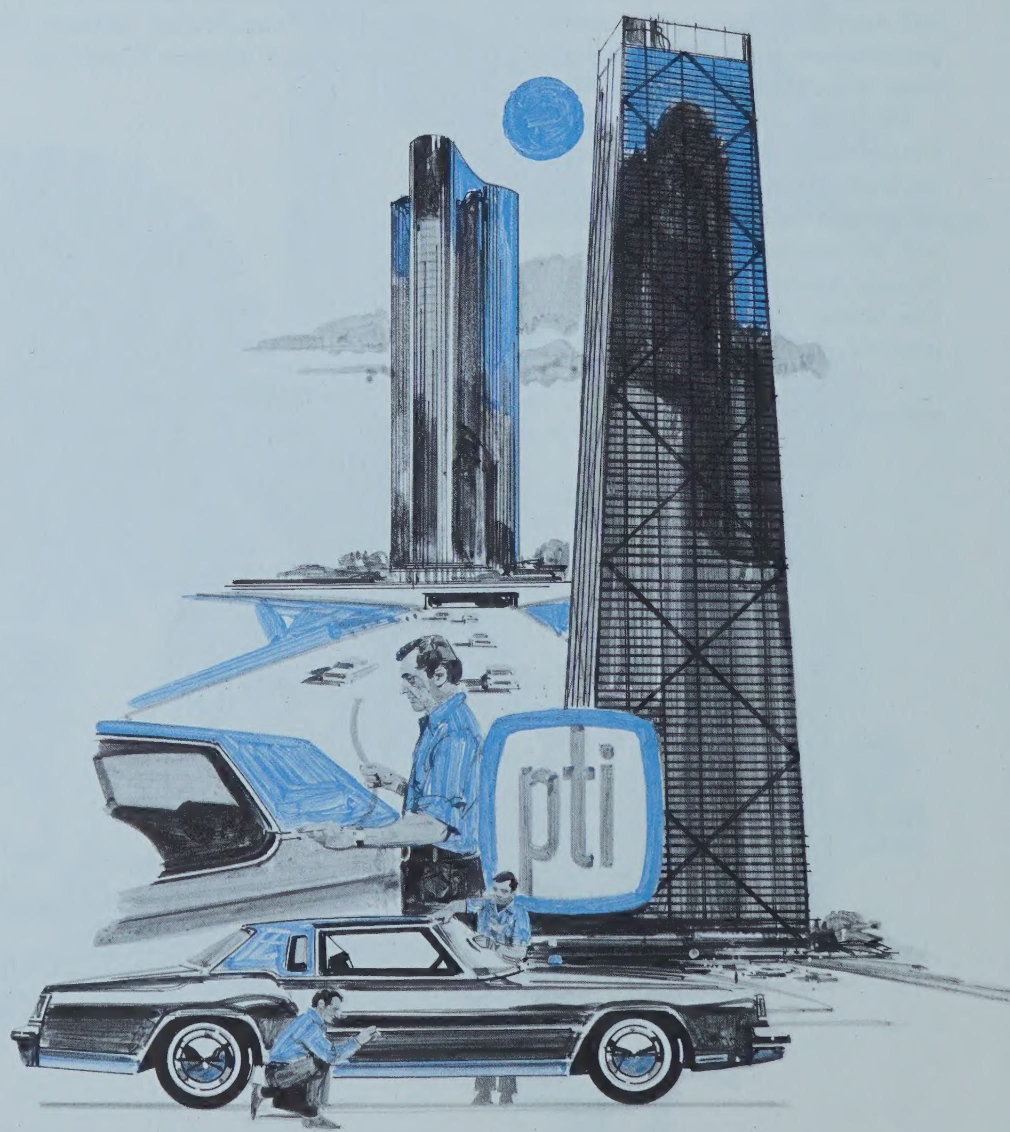
Protective Treatments, Inc., now in its 28th year of operation, continues to be a major supplier of sealant and adhesive systems to the automotive, architectural and industrial markets. Despite the downturn suffered by these industries, the division was able to increase its sales volume as a result of new product innovations and by expansion into new segments of the market.

During the past year PTI continued to prove itself a reliable and competitive manufacturer of OEM and after-market automotive adhesive and sealant products. We offer the automotive industry a wide variety of butyl, vinyl and other plastic products. New products introduced include: color keyed vinyl-top installation systems, automobile decorative side trim, specialty vinyl adhesives and butyl extrusions and sealants to cover the widest possible demands of the industry. Additional new products are coming out of our research and development laboratories which should expand our sales base.

Current backlog of the division in the OEM market includes a variety of new products and continuing orders for our established products for the 1975 model year. We have begun to quote on product applications for the 1976 model year.

The construction industry has learned to rely on our modern architectural glazing systems. Our PTI #707 cartridge sealant is now recognized as the industry standard by architects and professional glaziers. Our recently introduced pre-extruded, non-compressible vulcanized rubber spacer glazing tape is also receiving good acceptance. Other segments of the market are being served by our special pre-formed sealants for joining large precast conduit pipe and underground telephone vaults.

The recent downturn in the OEM automotive market has encouraged us to direct new market research and development efforts toward increasing our non-automotive business. Our modern plant and equipment together with our strong emphasis on new product research and development assures that PTI will continue its position of leadership in the dynamic and diverse sealant industry. We look for orderly growth from a solid foundation.



# Corporate Staff Group

The Corporate Staff Group consists of the following divisions and departments: Manufacturing and Warehousing Division, Research and Development Division, Financial and Administrative Division, Legal Department and Personnel and Employee Services Department.

Each of these divisions and departments serves our major marketing divisions and major subsidiaries with specialized professional skills. Senior corporate management relies on them for staff expertise and supportive systems in serving the Company. They also perform certain functions on a centralized basis for the Company as a whole.

**Manufacturing and Warehousing Division**

This group has total responsibility for our domestic toiletries manufacturing, warehousing and shipping operations. Manufacturing in our major Chicago facility and warehousing and shipping from two major Chicago area locations, as well as from outlying warehouses, has been recentralized during the past year under this corporate staff division.

**Research and Development Division**

With the exception of certain laboratories reporting directly to the presidents of our International and Professional Salon divisions, this group is totally responsible for the superior level of our research effort.

During this past year in addition to their ongoing duties they extended their services to meet the expanded regulatory requirements of the growing number of government agencies having control over the toiletries and cosmetic industry.

Without their creative talents the Company could not have kept pace with the challenges of the past year.

**Financial and Administrative Group**

This group includes the following areas: Corporate Controller, Treasury, Systems and Procedures, EDP Computer Services and Internal Auditing. In addition to their expanded activities in the changing nature of our Company, this group has also fulfilled increased financial reporting responsibilities to government agencies such as the Cost of Living Council, the Internal Revenue Service and the myriad federal, state and local agencies.

**Legal Department**

This department continued to handle a wide range of legal work. They successfully met increasing demands for their services in matters relating to employee relations and the rapidly growing requirements of governmental agencies such as the Federal Trade Commission, The Cost of Living Council and the E. E. O. C.

**Personnel and Employee Services Department**

This department continued to support management efforts throughout the Company to implement new and improved personnel programs. Their efforts are designed to attract and retain highly qualified employees and to help people perform their job responsibilities better. It is through their efforts that the Company was able to retain its approved position as an Equal Opportunity Employer, a position which the Company accepted long before government and social action groups became active in this role.

Helene Curtis Industries, Inc. and Subsidiaries

# Balance Sheets

*February 28, 1974 and 1973*

| ASSETS | 1974 | 1973 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 1,461,000 | $ 1,801,000 |
| Receivables, less allowance for doubtful accounts of $713,000 and $835,000 | 15,335,000 | 12,544,000 |
| Inventories (Notes 1 and 2) | 9,498,000 | 7,614,000 |
| Prepaid expenses | 1,072,000 | 1,013,000 |
| **TOTAL CURRENT ASSETS** | 27,366,000 | 22,972,000 |
| FIXED ASSETS (Note 1): | | |
| Land and buildings | 344,000 | 329,000 |
| Machinery and equipment | 4,690,000 | 4,516,000 |
| Leasehold improvements | 2,245,000 | 2,110,000 |
| Accumulated depreciation and amortization | (3,903,000) | (3,741,000) |
| | 3,376,000 | 3,214,000 |
| OTHER ASSETS | 1,216,000 | 1,129,000 |
| **TOTAL ASSETS** | $31,958,000 | $27,315,000 |

| **LIABILITIES AND SHAREHOLDERS' EQUITY** | 1974 | 1973 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes payable, banks | $ 822,000 | $ — |
| Accounts payable | 7,639,000 | 5,839,000 |
| Accrued expenses | 5,216,000 | 4,456,000 |
| **TOTAL CURRENT LIABILITIES** | 13,677,000 | 10,295,000 |
| ALLOWANCE FOR RETIREMENT BENEFITS (Notes 1 and 4) | 599,000 | 386,000 |
| DEFERRED ROYALTY INCOME (Note 1) | 763,000 | 873,000 |
| SHAREHOLDERS' EQUITY: | | |
| Common shares, $1 par value, authorized 5,000,000 shares, issued 2,181,185 shares (Note 3) | 2,181,000 | 2,181,000 |
| Capital in excess of par value | 5,603,000 | 5,603,000 |
| Retained earnings | 9,186,000 | 8,028,000 |
| | 16,970,000 | 15,812,000 |
| Less 2,017 treasury shares, at cost | 51,000 | 51,000 |
| **TOTAL SHAREHOLDERS' EQUITY** | 16,919,000 | 15,761,000 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $31,958,000 | $27,315,000 |

*The accompanying notes are an integral part of the financial statements.*

Helene Curtis Industries, Inc. and Subsidiaries

# Statements of Earnings and Retained Earnings

*Years ended February 28, 1974 and 1973*

| | 1974 | 1973 |
|---|---|---|
| NET SALES | $77,745,000 | $66,927,000 |
| Royalties, interest and other income | 2,170,000 | 2,055,000 |
| | 79,915,000 | 68,982,000 |
| COSTS AND EXPENSES: | | |
| Cost of goods sold | 42,098,000 | 37,245,000 |
| Advertising, promotional, selling and administrative expenses | 35,589,000 | 32,242,000 |
| Interest expense | 87,000 | 42,000 |
| | 77,774,000 | 69,529,000 |
| | 2,141,000 | (547,000) |
| Provision for income taxes (Notes 1 and 5) | 1,064,000 | 650,000 |
| EARNINGS (LOSS) BEFORE EXTRAORDINARY CREDIT | 1,077,000 | (1,197,000) |
| Extraordinary credit—tax benefit arising from prior years' losses | 81,000 | — |
| NET EARNINGS (LOSS) | 1,158,000 | (1,197,000) |
| RETAINED EARNINGS, BEGINNING OF YEAR | 8,028,000 | 9,225,000 |
| RETAINED EARNINGS, END OF YEAR | $ 9,186,000 | $ 8,028,000 |
| Per common share: | | |
| Earnings (loss) before extraordinary credit | $ .49 | $ (.55) |
| Extraordinary credit | .04 | — |
| Net earnings (loss) | $ .53 | $ (.55) |

*The accompanying notes are an integral part of the financial statements.*

Helene Curtis Industries, Inc. and Subsidiaries

# Statements of Changes in Financial Position

*Years ended February 28, 1974 and 1973*

| | 1974 | 1973 |
|---|---|---|
| FUNDS PROVIDED | | |
| From operations: | | |
| Earnings (loss) before extraordinary credit | $ 1,077,000 | $ (1,197,000) |
| Items not affecting working capital: | | |
| Depreciation and amortization | 799,000 | 730,000 |
| Deferred royalty income earned | (110,000) | (39,000) |
| Net retirement benefits accrued | 213,000 | 141,000 |
| Other | 80,000 | 110,000 |
| Provided from (used in) operations | 2,059,000 | (255,000) |
| Proceeds from sale of fixed assets | 65,000 | 79,000 |
| Other | — | 99,000 |
| | 2,124,000 | (77,000) |
| FUNDS APPLIED | | |
| Expenditures for fixed assets | 1,018,000 | 600,000 |
| Other | 94,000 | — |
| | 1,112,000 | 600,000 |
| INCREASE (DECREASE) IN WORKING CAPITAL | $ 1,012,000 | $ (677,000) |
| INCREASES (DECREASES) IN THE COMPONENTS OF WORKING CAPITAL | | |
| Current Assets: | | |
| Cash | $ (340,000) | $ 273,000 |
| Receivables | 2,791,000 | 751,000 |
| Inventories | 1,884,000 | (1,077,000) |
| Prepaid expenses | 59,000 | 27,000 |
| | 4,394,000 | (26,000) |
| Current Liabilities: | | |
| Notes payable | 822,000 | (178,000) |
| Accounts payable | 1,800,000 | (354,000) |
| Accrued expenses | 760,000 | 1,183,000 |
| | 3,382,000 | 651,000 |
| Increase (decrease) in working capital | $ 1,012,000 | $ (677,000) |

*The accompanying notes are an integral part of the financial statements.*

# Notes to Financial Statements

**(1) Summary of Significant Accounting Policies**

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and all its subsidiaries.

Prior to fiscal 1974, the Company consolidated the accounts of only its domestic and Canadian subsidiaries. During fiscal 1974, the Company adopted worldwide consolidation and the financial statements for fiscal 1973 have been restated to include those foreign subsidiaries which were not previously consolidated. Since the Company reported the results of operations of unconsolidated foreign subsidiaries on the equity basis in prior years, the restatement did not affect previously reported retained earnings, net earnings or per share amounts. The Company considers worldwide consolidation more appropriate in view of the increasing significance and character of these operations.

Accounts of foreign subsidiaries are translated to United States dollars at exchange rates in effect at the balance sheet dates except that fixed assets and related depreciation are translated at appropriate historical rates. Income and expense items other than depreciation are translated at the average rates of exchange prevailing during the year. Foreign exchange gains, insignificant in amount, are included in other income.

Inventories—Inventories are stated at the lower of first-in, first-out cost or market.

Fixed Assets—Fixed assets are stated at cost. Depreciation and amortization is provided using principally the straight-line method over the estimated useful lives of the assets.

Employee Retirement Plans—The Company and its domestic subsidiaries provide retirement benefits to substantially all employees through contributory profit sharing plans, supplemental pension agreements with certain key employees, and, with respect to one subsidiary, a non-contributory pension plan. Prior service costs, which are not significant in amount, under the pension plan and agreements are amortized over periods of 10 and 30 years.

Employees of the Japanese subsidiary are covered by a retirement plan required by law. Upon termination, employees are entitled to receive a lump-sum payment based on length of service and current rate of pay. Provision has been made for these payments based upon the total amount payable assuming all employees terminated voluntarily as of the balance sheet date.

Marketing, Research and Development Costs—Expenditures for the development of new and improved products, advertising and sales promotion are charged to expense when incurred.

Deferred Royalty Income—This amount represents certain liabilities of the Company's former subsidiary in France which were assumed by a new licensee in fiscal 1972 to be offset against future royalties accruing to the Company. Operations are credited as royalties are earned by the Company.

Income Taxes—Appropriate domestic and foreign income taxes (insignificant in amount) are accrued on subsidiary earnings that are expected to be remitted in the near future. At February 28, 1974 undistributed earnings of subsidiaries that have been, or are currently intended to be permanently reinvested, if remitted, would not result in significant additional taxes.

Investment tax credits are reflected as a reduction of income tax expense when the related assets are placed in service if such credits can be utilized.

**(2) Inventories**

At the respective year ends inventories consisted of the following:

| | 1974 | 1973 |
|---|---|---|
| Raw materials | $4,276,000 | $3,458,000 |
| Work in process | 341,000 | 659,000 |
| Finished goods | 4,881,000 | 3,497,000 |
| | $9,498,000 | $7,614,000 |

**(3) Common Shares**

The Company has adopted a qualified stock option plan under which shares are reserved for issuance to key employees. Under the plan, options may be exercised ratably during each of four years after one year from date of grant at option prices which represent the market value of the stock at date of grant. During fiscal 1974 options for 3,500 shares were cancelled, options for 19,650 shares were granted and no options were exercised. At February 28, 1974, options for 71,600 shares were outstanding (at prices of $3.38 to $10.50) of which 50,075 shares were exercisable and options for 47,219 shares were available for future grant. The assumed exercise of employee stock options would not have a dilutive effect on earnings per share in either year.

The Company also has a deferred stock compensation plan for key employees under which 25,000 unissued common shares may be issued.

**(4) Employee Retirement Costs**

Provisions for retirement plan costs charged to operations were as follows:

| | 1974 | 1973 |
|---|---|---|
| Profit sharing plans | $118,000 | $102,000 |
| Pension plan and agreements | 104,000 | 96,000 |
| Japanese subsidiary termination plan | 198,000 | 100,000 |
| | $420,000 | $298,000 |

At February 28, 1974, the balance sheet accrual for unfunded retirement benefits consisted of $419,000 applicable to the Japanese subsidiary plan and $180,000 applicable to the supplemental pension agreements.

**(5) Income Taxes**

The provision for income taxes is comprised of foreign and state taxes currently payable of $987,000 and $79,000

in 1974 and $692,000 and $21,000 in 1973, net of foreign deferred credits of $2,000 and $63,000, respectively.

The provision for income taxes as shown in the financial statements differs from a provision computed at the statutory rate of 48% for the following reasons:

| | 1974 | 1973 |
|---|---|---|
| Tax expense (benefit) using statutory rate | $1,027,000 | $ (263,000) |
| Increase (decrease) in taxes resulting from: | | |
| Domestic and foreign subsidiary operating losses for which no tax benefit was obtained | — | 621,000 |
| Foreign income taxes withheld on royalty income and foreign subsidiary dividends not utilized as a credit against domestic income taxes | — | 271,000 |
| State income taxes | 37,000 | 21,000 |
| Reported tax provision | $1,064,000 | $ 650,000 |

The Company and domestic subsidiaries file a consolidated federal income tax return. No federal income tax is currently payable due to available foreign tax credits.

At February 28, 1974 the Company and domestic subsidiaries had recorded expenses amounting to $1,900,000 which have not been deducted for income tax purposes. Such amounts, when deducted, will be available to reduce otherwise determined taxable income. In addition, a Canadian subsidiary has an operating loss carryforward of $1,200,000 ($160,000 expiring in 1975 and $570,000 in 1977) available to reduce its future Canadian taxable income.

The Company has foreign tax credit carryovers of $1,200,000 (expiring principally in 1976 through 1978) and investment tax credit carryovers of $180,000 (expiring in minor amounts from 1977 through 1981) available to reduce future domestic tax liabilities, if any.

**(6) Lease Commitments**

The Company has various leases for real property and machinery and equipment. Many of these leases contain renewal options for varying periods and certain leases contain purchase options, generally at pre-established amounts.

Rental expense for fiscal 1974 and 1973 was comprised of:

| | 1974 | 1973 |
|---|---|---|
| Non-capitalized financing leases | $ 928,000 | $ 910,000 |
| Other | 806,000 | 771,000 |
| | 1,734,000 | 1,681,000 |
| Less sublease rentals | (231,000) | (138,000) |
| | $1,503,000 | $1,543,000 |

Minimum commitments under noncancellable leases at February 28, 1974 are as follows:

| Fiscal Year | Net of Subleases: All Leases | Net of Subleases: Financing Leases | Subleases |
|---|---|---|---|
| 1975 | $ 887,000 | $ 747,000 | $ 277,000 |
| 1976 | 839,000 | 777,000 | 215,000 |
| 1977 | 891,000 | 830,000 | 147,000 |
| 1978 | 539,000 | 503,000 | 93,000 |
| 1979 | 527,000 | 516,000 | 7,000 |
| 1980-1984 | 1,990,000 | 1,990,000 | |
| 1985-1989 | 1,667,000 | 1,667,000 | |
| 1990-1994 | 1,667,000 | 1,667,000 | |
| Remainder | 621,000 | 621,000 | |
| | $9,628,000 | $9,318,000 | $ 739,000 |

Of the total lease commitments, $8,575,000 is applicable to real property and $1,053,000 to machinery and equipment.

The present values of minimum commitments under financing leases, discounted at interest rates ranging from 4 to 10 percent (weighted average of approximately 8½ and 8 percent for fiscal 1974 and 1973, respectively) were:

| | February 28, 1974 | February 28, 1973 |
|---|---|---|
| Real property | $4,287,000 | $4,639,000 |
| Machinery and equipment | 882,000 | 600,000 |
| | 5,169,000 | 5,239,000 |
| Less subleases | (482,000) | (657,000) |
| | $4,687,000 | $4,582,000 |

If the then present value of all financing leases had been capitalized at their inception and amortized on a straight-line basis with interest recognized on the declining value of the discounted aggregate future payments, net earnings would have been reduced by approximately $98,000 in 1974 and $119,000 in 1973. These amounts are arrived at by adding to earnings the lease rentals and subtracting amortization and interest of $594,000 and $432,000 in 1974 and $591,000 and $438,000 in 1973, respectively.

**(7) Contingency**

The Company's Studio Girl subsidiary is party to litigation with the Internal Revenue Service (IRS). Pursuant to an examination of the Company's employment tax returns for the calendar years 1970 through 1972, the IRS has taken the position that the Company's independent sales agents are employees of the Company. Accordingly, the IRS has proposed an assessment for additional employment taxes aggregating approximately $1,500,000 which allegedly should have been paid or withheld by the Company. Employment tax returns for 1973 have not been examined by the IRS. The Company and its special counsel believe the Company will be successful in its position that these independent sales agents are not employees of the Company and that employment taxes were not required to be paid by the Company or withheld or collected from the sales agent.

Helene Curtis Industries, Inc. and Subsidiaries

# Five Year Financial Review

*Dollars in Thousands*

| | Feb. 28, 1974 | Feb. 28, 1973* | Feb. 29, 1972* | Feb. 28, 1971* | Feb. 28, 1970* |
|---|---|---|---|---|---|
| Cash | $ 1,461 | $ 1,801 | $ 1,528 | $ 1,979 | $ 1,583 |
| Receivables (net) | 15,335 | 12,544 | 11,793 | 11,694 | 12,032 |
| Inventories | 9,498 | 7,614 | 8,691 | 12,010 | 12,251 |
| Prepaid expenses | 1,072 | 1,013 | 986 | 754 | 721 |
| TOTAL CURRENT ASSETS | $27,366 | $22,972 | $22,998 | $26,437 | $26,587 |
| Fixed Assets, net after depreciation | 3,376 | 3,214 | 3,422 | 3,732 | 5,779 |
| Other assets | 1,216 | 1,129 | 1,339 | 1,524 | 2,092 |
| TOTAL ASSETS | $31,958 | $27,315 | $27,759 | $31,693 | $34,458 |
| TOTAL CURRENT LIABILITIES | $13,677 | $10,295 | $ 9,644 | $14,884 | $15,351 |
| Long-term debt | — | — | — | — | 600 |
| Minority interest | — | — | — | — | 151 |
| Deferred royalty income | 763 | 873 | 912 | — | — |
| Accrued retirement benefit | 599 | 386 | 245 | 120 | 82 |
| TOTAL SHAREHOLDERS' EQUITY | 16,919 | 15,761 | 16,958 | 16,689 | 18,274 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $31,958 | $27,315 | $27,759 | $31,693 | $34,458 |
| Net sales | $77,745 | $66,927 | $68,526 | $70,900 | $70,587 |
| Depreciation and amortization | 799 | 730 | 734 | 709 | 726 |
| Earnings (loss) before income taxes and French subsidiary operations | 2,141 | (547) | 1,193 | (661) | 2,430 |
| Provision for taxes on income | 1,064 | 650 | 932 | 436 | 1,457 |
| Loss from French subsidiary operations (1) | — | — | ( 80) | (628) | (108) |
| Extraordinary items | 81 | — | 89 | — | 998 |
| Net earnings (loss) | 1,158 | (1,197) | 270 | (1,725) | 1,863 |

*(1) Losses related to operations of French subsidiary disposed of in fiscal 1972.*
**Restated to reflect the consolidation of foreign subsidiaries located outside the United States and Canada.*

# Directors

Gerald Gidwitz, *Chairman*
Max H. Braun
Allen D. Choka
Joseph L. Gidwitz
Walter Kaplan
Franklin B. Schmick*
Si Richard Wynn

# Officers

Gerald Gidwitz, *Chairman of the Board*
Joseph L. Gidwitz, *Vice Chairman of the Board*
Walter Kaplan, *President*
Arthur I. Caplin, *Vice President*
Allen D. Choka, *Vice President*
Charles G. Cooper, *Vice President*
Ronald J. Gidwitz, *Vice President*†
Hyman Henkin, *Vice President*
Si Richard Wynn, *Vice President and Treasurer*†
Lester J. von Stein, *Secretary*

**Deceased November, 1973*
*†Member Office of the President*

**Auditors**

Coopers & Lybrand

**Transfer Agents**

American National Bank and Trust Company of Chicago
Chase Manhattan Bank, New York City

**Registrars**

Harris Trust and Savings Bank, Chicago
Morgan Guaranty Trust Company, New York City

Listed:

New York Stock Exchange

## AUDITORS' REPORT

**SHAREHOLDERS AND DIRECTORS**
**Helene Curtis Industries, Inc.**

We have examined the consolidated balance sheets of Helene Curtis Industries, Inc. and Subsidiaries as of February 28, 1974 and 1973 and the related statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Helene Curtis Industries, Inc. and Subsidiaries at February 28, 1974 and 1973, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, after the restatement, with which we concur, in the consolidation policy as described in Note 1 to the financial statements.

Chicago, Illinois
April 30, 1974

COOPERS & LYBRAND

*Helene Curtis Industries, Inc.*

4401 WEST NORTH AVENUE, CHICAGO, ILLINOIS 60639